SEATTLE CITY COUNCIL
CENTRAL STAFF

February 19, 2019

MEMORANDUM

To: MHA Select Committee
From: Aly Pennucci, Analyst
Subject: Information Requested at the February 8, 2018 MHA Select Committee meeting

As a follow-up to the discussion at the Mandatory Housing Affordability (MHA) Select Committee (Committee) meeting on February 8, this memo provides information about:

1. MHA estimates and how proposed amendments to Council Bill (CB) 119443 and CB 119444 may impact the MHA production estimates; and
2. Availability of small commercial spaces in Seattle and the proposed amendments that would require inclusion of small commercial spaces in new development.

MHA ESTIMATES

There are several amendments under consideration by the Committee that may impact the MHA production estimates for the citywide legislation. The MHA proposal is intended to increase the supply of new affordable and market-rate housing, both of which support the City's growth management and housing policies. The goal is to create 6,000 rent- and income-restricted homes over a 10-year period through implementation of MHA. The MHA production model is used to analyze and understand the tradeoffs among various policy choices and to understand if the proposal could result in generating the 6,000 rent- and income-restricted units over a 10-year period.

This section (1) provides a brief summary of the methodology used to estimate growth and the projected production of rent- and income-restricted housing units through implementation of the MHA citywide; (2) compares the results of the model to estimates of new housing and MHA units that would result from the suite of proposed amendments; and (3) offers some policy discussion related to the impacts of the amendments.

Methodology

Because the amount or location of future development over the 10-year planning horizon remains dependent on the decisions of hundreds of private property owners and developers, and thus unknown, the Office of Planning and Community Development (OPCD) uses a model to estimate overall housing and job growth[1] and the number of rent- and income-restricted housing units expected to be produced through implementation of the Citywide MHA legislation. The model estimates future conditions using the best available data, but because of the many unknown factors influencing the production of housing and commercial development, the model must make a series of assumptions about the City's growth.

The model estimates the production of rent- and income-restricted units through implementation of MHA by:

[1] Growth estimates for the proposal relied on and built upon the Seattle 2035 20-year growth estimates. A detailed discussion of the assumptions and methodology used to the develop growth estimates is provided in Appendix G to the MHA FEIS.

→ Estimating the amount of growth that will occur over a 20-year period, based on historic data, adopted 20-year growth estimates, and increased capacity resulting from the proposal, then prorating the amount of development expected within the first 10 years.
→ Allocating these growth estimates in the study area based on development patterns over the last 10 years.
→ Applying general assumptions about the percentage of development projects that will use the payment option and the percentage that will use the performance option.
→ Calculating the number of units produced through the performance option.
→ Calculating revenue produced through the payment option and the number of units that would be created from payment revenue.

The amount of new housing, and the number of rent- and income-restricted housing units produced through implementation of the Citywide MHA legislation ultimately depends on the amount of future development. Using the model described above, OPCD estimates that the implementation of the Citywide MHA legislation would create approximately 3,000 units of rent-and income-restricted units. Combined with implementation of MHA in Downtown, South Lake Union, Uptown, and the Chinatown-International District, this action is estimated to produce over 6,000 rent- and income-restricted housing units over a 10-year period. After full implementation, the City will monitor and report on the actual production of affordable housing resulting from MHA to track progress towards the 6,000-unit goal.

Effect of proposed Council amendments on the estimated number of rent- and income-restricted units

Several potential amendments would change development capacity in portions of the city, impacting the estimated number of affordable units produced. Central Staff worked with OPCD to run the production model with the suite of potential amendments discussed at the February 8 MHA Select Committee Meeting, to project the overall quantitative impact on the estimates. **The proposed Council amendments result in a decrease of 56 rent- and income-restricted units over 10 years compared to the proposal as introduced** (see tables 1 and 2 below).

Reducing the amount of housing that can be built in one area of an urban village (i.e. building at RSL densities instead of LR densities), is expected to lead to an increase in development in other locations. Thus, in urban villages where reductions to zoning are being considered, this is likely to result in more housing growth in other portions of the study area offsetting the impact the amendments on the MHA production estimates.

As previously described, the goal for MHA is to produce 6,000 rent- and income-restricted units over a 10-year period. While the model suggests the proposed amendments would result in affordable housing production just short of that goal, it is likely that the changes are within a reasonable margin of error in terms of the reliability of the model outcomes.

Table 1: Summary of Estimated MHA Production (10 years)

	As Proposed	Council Amendments
Downtown / SLU (includes Chinatown/ID)	2,350	2,350
University District	398	398
Uptown	305	305
MHA Citywide Legislation	2,986	2,930
Total	**6,038**	**5,982**
change		*(56)*

Table 2: Estimated MHA Production (10 Years) by Urban Village

Displacement Risk	Access to Opportunity	Urban Village	As Proposed	Council Amendments	Difference
H	*H*	*Downtown / SLU (includes Chinatown / ID)*	*2,350*	*2,350*	*0*
H	*H*	*U District (1)*	*398*	*398*	*0*
L	*H*	*Uptown*	*305*	*305*	*0*
H	H	23rd & Union-Jackson	91	93	2
L	H	Admiral	16	16	0
L	L	Aurora-Licton Springs	49	47	(2)
L	H	Ballard	248	248	0
H	L	Bitter Lake Village	60	60	0
H	H	Columbia City	47	47	0
L	H	Crown Hill	84	61	(23)
L	H	Eastlake	34	59	25
H	H	First Hill-Capitol Hill	393	397	4
L	H	Fremont	85	83	(2)
L	H	Green Lake	52	52	0
L	H	Greenwood-Phinney Ridge	31	32	1
H	H	Lake City	35	35	0
L	H	Madison-Miller	85	85	0
L	L	Morgan Junction	49	48	(1)
H	H	North Beacon Hill	30	30	0
H	H	North Rainier	90	90	0
H	H	Northgate	198	200	2
H	L	Othello	24	25	1
H	L	Rainier Beach	25	23	(2)
L	H	Ravenna *(University Community)*	127	131	4
L	H	Roosevelt	25	18	(7)
H	L	South Park	19	19	0
L	H	Upper Queen Anne	36	36	0
L	H	Wallingford	113	102	(11)
L	H	West Seattle Junction	140	103	(37)
H	L	Westwood-Highland Park	30	27	(3)
		outside villages	769	762	(7)
		Subtotal	**2,985**	**2,929**	(56)
		Total	**6,038**	**5,982**	(56)

Parcel Comparison

The output from the model provides one way to understand the effects of the Council amendments under consideration. Another way to analyze any proposed changes is to compare the projected development outcomes from redevelopment of any individual parcel under different zoning scenarios. Unlike the analysis in the production model, this approach simply illustrates what could happen when or if the parcel redevelops rather than estimating the number of new affordable and market rate housing units that will be built within a specified time period. Figure 1 (below) illustrates how different zoning scenarios would be realized on a 5,000 square foot lot, showing both the scale of development under different zoning scenarios as well as the estimated MHA performance or payment amounts.

Figure 1 Development Outcomes on a 5,000 Square Foot Lot

RSL
- Max FAR: 0.75
- Density Limit: 2,000
- Max Floor Area: 3,750
- 1 New unit plus preserved existing home
- MHA performance: Not likely on site

or
- MHA payment: $49,688

LR1
- Max FAR: 1.3
- Density Limit: 1,350
- Max Floor Area: 6,500
- 3 New townhouse units
- MHA performance: Not likely on site.

or
- MHA payment: $130,000

LR2
- Max FAR: 1.4
- Density Limit: none
- Max Floor Area: 7,000
- 8 apartments or condos
- MHA performance: One family sized unit

or
- MHA payment: $140,000

LR3
- Max FAR: 2.3
- Density Limit: none
- Max Floor Area: 11,500
- 14 apartments or condos
- MHA performance: Two units

or
- MHA payment: $255,875

Note that if MHA was not applied and the same lot remained zoned single-family, redevelopment of the lot would result in replacing a single unit with one unit that could be as large as 5,250 square feet and would not require a contribution to affordable housing.

Other policy considerations

- One potential consequence of shifts from LR zoning to RSL zoning in current Single-family zoned areas, is that a greater share of housing growth in urban villages would be located in neighborhood commercial zones. Neighborhood commercial zones are commonly located along arterial roadways such as 15th Ave. NW, N. 45th St., California Ave. SW, and NW 65th St. Housing adjacent to such arterials is more likely to be exposed to higher levels of noise and air pollution from traffic. On the other hand, those same streets are well-served by transit and other neighborhood amenities, offering people who live in those areas access to services.

- More areas zoned RSL versus Lowrise could result in reduced production of ground-related "missing middle" housing (housing with front doors and individual accessed from grade). Ground-related housing is generally conducive to larger households including family households. Although the RSL zone is expected to produce ground-related housing such as duplexes and cottages, the LR1 zone is expected to produce ground-related housing in greater quantities and densities of townhouse and rowhouse types. Both zones would produce moderately sized homes often in the 1,500 – 2,200 sq. ft. range.

  Given the limited application of RSL currently, combined with the multitude of changes proposed to the applicable development standards in RSL zones, our ability to predict development decisions in those zones is limited. Further, as market conditions change, so too do the prospects for various project types making it difficult to precisely quantify. With ongoing reporting, the Council can monitor the actual development outcomes and the production of affordable and market-rate housing in various zones to determine if development is, or is not, meeting intended outcomes.

SMALL COMMERCIAL SPACES

Development standards requiring the inclusion of spaces designed for small commercial uses offer one strategy to support commercial affordability and potentially limits the displacement of small, locally-owned businesses. One amendment under consideration requires that new development in pedestrian zones with over 5,000 square feet of ground level commercial space provide small commercial spaces permanently.

At the Committee discussion on February 8, Central Staff was asked to provide information on the availability of small commercial spaces to understand the extent of the problem. OPCD, in preparing recommendations requested in Resolution 31732 on requirements for small commercial spaces, reported the following about the availability of small commercial spaces:

- In 2016, the retail vacancy rate in Seattle was at 1.9% (OED)[1]. Available space has experienced dramatic rent increases as a result of limited selection, especially in areas where businesses require foot traffic to generate revenue.
- Data[2] shows that of the 119 buildings with available commercial space in January of 2019, 40 percent included commercial spaces less than 1,500 square feet in size, and 19 percent with less than 1,000 square feet, with the smallest space at 190 square feet.

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[1] In the 4th Quarter of 2018 Kidder Mathews reported that direct retail vacancy rates in King County were 2.6 percent (http://www.kiddermathews.com/downloads/research/retail-market-research-seattle-2018-4q.pdf).
[2] Data provided by CoStar. Available data on the size, quantity, and vacancy rates of commercial spaces is limited. The data used for this analysis is a snapshot from November in 2018 and is limited to commercial spaces currently

- In addition, 81 percent of these buildings with contiguous commercial space of 5,000 square feet or greater are already subdivided, even in the absence of regulation. Of buildings with contiguous spaces 2,000 square feet or greater, 62 percent have smaller, subdivided spaces available.

OPCD also noted that new construction and development patterns today are very different from when many of Seattle's neighborhood business districts were built. New development tends to have larger footprints and is typically constructed with easily divided commercial "shell" spaces to accommodate tenant needs, rather than constructing smaller commercial buildings with one or two spaces.

This indicates that, overall, there is limited retail space available for rent, and that many new developments are opting for flexibility in how ground-floor commercial is allocated. A development standard requiring inclusion of smaller commercial spaces could result in more thoughtfully designed spaces accommodating smaller commercial uses. If the goal is to ensure the continuous presence of small commercial spaces in neighborhood business districts identified with the Pedestrian zone designation, requiring inclusion of small spaces is likely the best approach to meet that goal. On the other hand, it would impact flexibility in developing projects, and could limit opportunities to divide space in the future in response to changing trends in the retail market.

Proposed Amendment

The amendment under consideration would require inclusion of a specified number of small commercial spaces in new developments proposed in pedestrian zones along street frontages with mandatory ground level commercial uses. In addition, the amendment revises the depth requirements for small commercial spaces to allow a smaller average depth for commercial space under 600 square feet. Further, the amendment gives the Seattle Department of Construction and Inspections authority to waive the requirement under certain conditions, such as demonstration of the availability of other small commercial spaces within the same area.

Where would this requirement apply?

Pedestrian zones are generally located in recognized neighborhood business districts and are locations already prioritized for an active streetscape. Appendix 1 to this memo provides a map showing the location of existing and proposed Pedestrian Zones across the City.

Attachments:

1. Attachment 1: Pedestrian Zone Map: Areas where the small commercial space requirement would apply

cc: Kirstan Arestad, Central Staff Director

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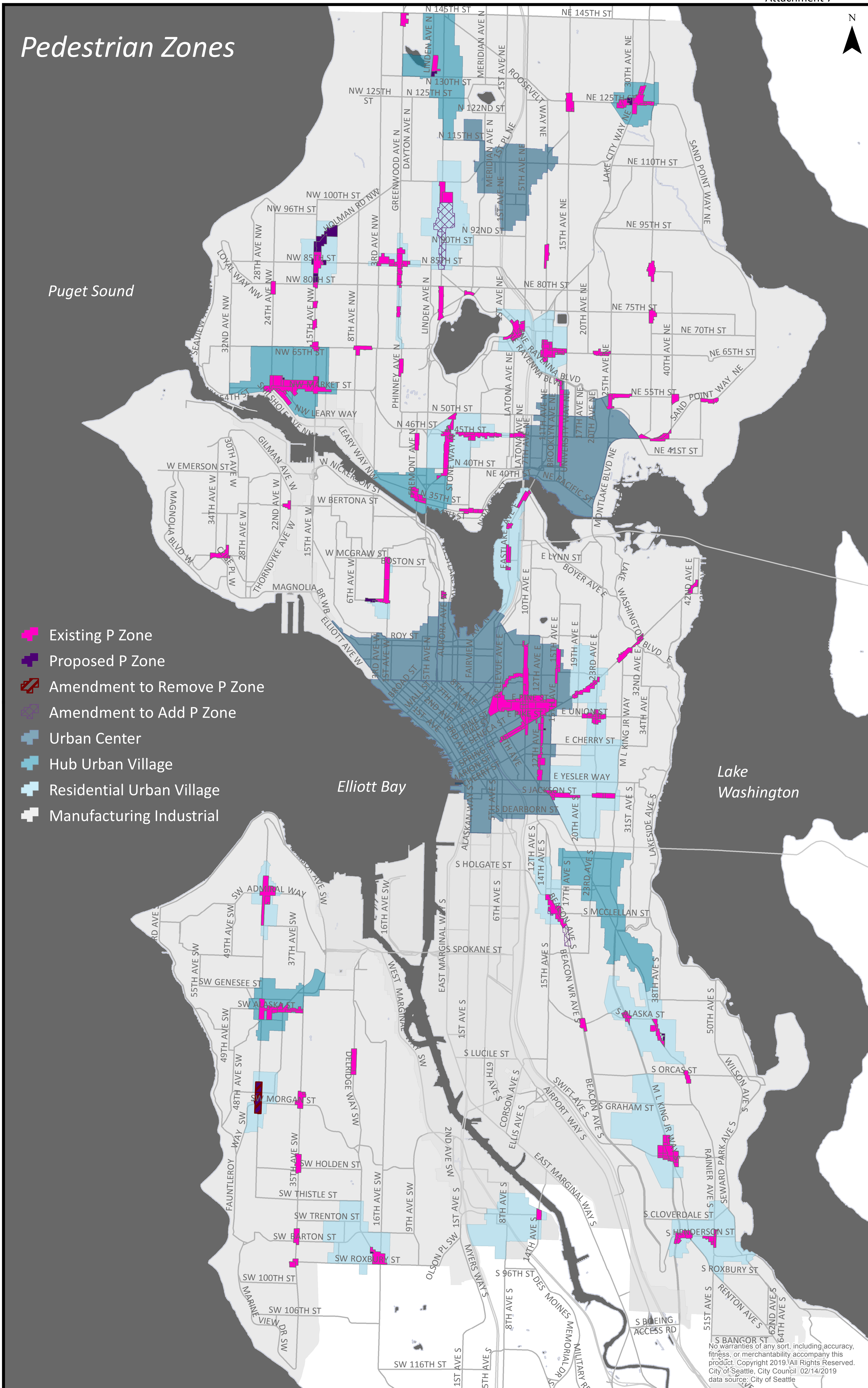
for lease. The data includes only the square feet of smallest available space, not the size of all available space in a building, as well as the total amount of contiguous square feet.


Pedestrian Zones
N
Puget Sound
Elliott Bay
Lake Washington
Existing P Zone
Proposed P Zone
Amendment to Remove P Zone
Amendment to Add P Zone
Urban Center
Hub Urban Village
Residential Urban Village
Manufacturing Industrial
N 145TH ST
NE 145TH ST
N 130TH ST
NW 125TH ST
N 125TH ST
NE 125TH ST
N 122ND ST
N 115TH ST
NE 110TH ST
NW 100TH ST
NW 96TH ST
NE 95TH ST
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N 35TH ST
W EMERSON ST
W NICKERSON ST
W BERTONA ST
W MCGRAW ST
E LYNN ST
ROY ST
E UNION ST
E CHERRY ST
E YESLER WAY
S JACKSON ST
S DEARBORN ST
S HOLGATE ST
S MCCLELLAN ST
S SPOKANE ST
SW GENESEE ST
SW ALASKA ST
S ALASKA ST
S LUCILE ST
S ORCAS ST
SW MORGAN ST
S GRAHAM ST
SW HOLDEN ST
SW THISTLE ST
SW TRENTON ST
S CLOVERDALE ST
SW BARTON ST
S HENDERSON ST
SW ROXBURY ST
S ROXBURY ST
SW 100TH ST
S 96TH ST
SW 106TH ST
S BOEING ACCESS RD
S BANGOR ST
SW 116TH ST
NW LEARY WAY
LEARY WAY NW
HOLMAN RD NW
ROOSEVELT WAY NE
LAKE CITY WAY NE
SAND POINT WAY NE
MAGNOLIA BR
ELLIOTT AVE W
BOYER AVE E
LAKE WASHINGTON BLVD
M L KING JR WAY
RAINIER AVE S
SEWARD PARK AVE S
WILSON AVE S
RENTON AVE S
BEACON AVE S
AIRPORT WAY S
EAST MARGINAL WAY S
WEST MARGINAL WAY SW
DELRIDGE WAY SW
FAUNTLEROY WAY SW
MARINE VIEW DR SW
DES MOINES MEMORIAL DR S
MILITARY RD S
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